**Barnstable**

* The college’s policy was to spend between 4% and 5% of the endowment each year.
* **philosophy**. In the long-run, the investment committee believed, stocks would outperform safer asset classes such as bonds and Treasury bills.
* S&P 500 index fund (40%), an actively-managed portfolio of U.S. stocks (30%), and an actively-managed portfolio of non-U.S. stocks (30%)
* **Mathematically**, the **law of large numbers** translates into the dispersion of returns growing only with the square root of time rather than proportionally with time.
* For **example**, the standard deviation of four-year returns is theoretically twice the standard deviation of one-year returns. On the other hand, the expected four-year return is four times the expected one-year return.2

### **FIRST** Proposal

* The securities firm was proposing that Barnstable College take advantage of the opportunity represented by the high put prices for the low probability risk that stocks would return less than 6% per annum over the long run.

### **SECOND** Proposal

* Creation of a trust or other suitable entity that, on the asset side, would own the stocks in the S&P 500, and on the liability side would have two classes of shares: Preference Shares and Common Shares.
* **Mechanism -** The trust would have a fixed life, say 30 years, during which the assets would be managed just like an S&P 500 index fund, including reinvestment of dividends. At the end of year 30, the trust would be liquidated, and the assets distributed to the liabilityholders as follows: Holders of Common Shares would receive any assets in excess of the “redemption value”, while holders of Preference Shares would receive the redemption value, or the value of the assets, whichever was less. The redemption value would be equal to the initial value of the assets in the trust grown at a 6% per annum continuously compounded rate for 30 years, or $1.0618430 = $6.05 for each dollar of initial assets.